

CONTRIBUTION OF INTERNAL FACTORS THAT INFLUENCE THE FINANCIAL PERFORMANCE OF MSMEs

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ABSTRACT

This research aims to explore the implications of factors within MSME entrepreneurs in Buleleng Regency on the financial performance of MSMEs. Considering not only external factors, but also internal factors. The research results show that financial literacy, financial efficacy positively and significantly influence financial performance with locus of control as an intervening variable. The results of this research were obtained by conducting hypothesis testing using the SEM PLS analysis tool. Apart from indirect effects, direct effects can also be stated that the variables financial literacy, financial efficacy, influence locus of control. Likewise, financial literacy and financial efficacy are related to financial performance. And the locus of control over financial performance is also no less important in making a positive contribution.

Keywords: Financial literacy, financial efficacy, locus of control, financial performance of MSMEs

1. PREFACE

Introduction

The development of MSMEs does have a very important role in the economic growth of a country. Efforts by the Buleleng Regency government in Bali Province to support MSMEs in collaboration with the Bali Regional Development Bank (BPD) are very important to expand marketing access for MSME products and provide access to capital. However, financial management problems are a serious obstacle in the development of MSMEs in the area. To overcome this, a holistic and sustainable approach needs to be implemented. Some solutions that can be considered are: Financial Education and Training: Intensive training programs on financial management should be provided to MSMEs. This can include how to create simple financial reports, managing cash flow, and understanding the importance of good financial records. Accessibility of Information and Financial Assistance: Providing easily accessible information services as well as special assistance in terms of financial planning, loan applications, and understanding taxes can help MSME owners. Use of Technology: Encouraging the use of technology in financial recording, such as using simple applications for recording transactions and inventory management, can help simplify the financial management process. Mentoring and Mentoring: Mentoring or mentoring programs involving financial experts or more experienced entrepreneurs can provide valuable insight and direct guidance to MSME owners. Further Collaboration: Closer collaboration between the government, financial institutions, business community and educational institutions can create a supportive ecosystem for the development of MSMEs.

The decline in the number of MSMEs in Buleleng Regency which has an impact on reducing GRDP shows how vital the role of MSMEs is in local economic growth. The weak competitiveness of MSMEs can be a serious challenge that affects regional economic

performance. Weak management of MSMEs, including financial management, is the main factor hampering their competitiveness. To increase the competitiveness of MSMEs in Buleleng, the following steps can be considered: Continuous education and training programs on business and financial management should be provided to MSME owners. This may include training in financial report preparation, inventory management, and business development strategies. Encouraging the formation of networks between MSMEs and institutions, government and other business actors can help in gaining access to resources, markets and other opportunities. Local governments can provide further support through tax incentives, capital assistance, or technical assistance programs to improve the quality of MSME management. Encouraging the use of technology in financial management such as financial planning applications, online bookkeeping systems and e-commerce can help MSMEs expand their markets and increase operational efficiency. Increase MSME access to financial services such as low-interest loans or capital assistance programs to develop businesses Mentor or business consulting program that provides direct guidance and advice to MSME owners on better financial management strategies. Improving the financial management of MSMEs is an important step in increasing their competitiveness. With assistance, education and a comprehensive approach, it is hoped that MSMEs in Buleleng Regency can improve their financial performance and compete better in local and regional markets (Yuniarta, 2017).

Good financial performance is indeed a reflection of the effectiveness of a company's financial management. High quality financial management can produce various positive impacts, such as: Financial Stability: Good financial management helps companies maintain liquidity, manage debt, and ensure a balance between assets and liabilities. This supports long-term financial stability. Monitoring and Decision Making: Accurate and regular financial reports enable management to better monitor company performance. With the right information, they can make better decisions regarding investments, expenses, or business strategies. Investor and Creditor Confidence: Strong financial performance also strengthens investor and creditor confidence in the company. This can help in obtaining (Rina Destiana, 2016).

Table 1. Education Level of MSME Actors in Buleleng Regency

Education Level	Total	Percentage
Did not graduate from elementary school	2,656	7.4%
Graduated from elementary school	17,012	47.4%
Middle school	5,491	15.3%
High school	8,362	23.3%
Bachelor's degree	2,118	5.9%
Postgraduate	251	0.7%

Source: The Department of Trade, Prindustry and Cooperatives, Small and Medium Enterprises in Buleleng Regency (2022)

Financial literacy plays a crucial role in the financial success of individuals and businesses. Financial problems are often not only related to low income, but also to a lack of understanding of how to manage money well. In a business context, a lack of financial literacy can have an impact on errors in managing business finances, which in turn can result in serious financial problems (Rahmayanti et al., 2019). Financial literacy emphasizes implementing financial knowledge and skills to make financial decisions (Fadli, 2020).

Financial literacy plays an important role in preparing and understanding accurate financial reports. Good financial reports are the basis for making the right decisions in business management. Accurate and reliable information from financial reports helps MSME management (Dermawan, 2019). Another factor that is no less important that plays a role in financial performance is financial efficacy. Financial efficacy reflects a person's self-confidence, in this case MSME actors, in achieving financial goals. Financial efficacy in MSMEs is important to improve financial performance with confidence in managing finances in new ways (Afrianti & Biduri, 2022).

The use of the Locus of Control variable in research related to MSME financial performance carries a significant psychological dimension. Locus of Control reflects individuals' beliefs about the extent to which they have control over their lives and decisions, whether originating from internal factors (internal locus) or external factors (external locus). The results of previous research show that there is a positive influence of Locus of Control on the financial performance of MSMEs. In this context, understanding the extent to which individuals feel they have control in managing their finances and business can be key in helping MSMEs to develop a proactive, resilient and responsible attitude towards managing their finances. This can help them face business challenges and make better and more strategic decisions in managing their business finances (Rotter, 1966), (Forte, 2005), (Darmawan, 2021).

Research that will analyze financial literacy, financial efficacy, and Locus of Control as intervening variables on the financial performance of MSMEs in Buleleng Regency, Bali Province, has the potential to be very relevant and of high value. By combining these variables, this research can provide a more comprehensive understanding of the factors that influence MSME financial performance. By deepening understanding of these factors and how their interactions influence the financial performance of MSMEs in Buleleng Regency, this research can provide valuable insights for the development of more appropriate policies, training programs and support for MSMEs in improving their financial performance. This can contribute to local economic growth and increase the welfare of the people in the area.

Problem Formulation

In the introduction, the phenomenon which is the background of this research has been explained. Furthermore, the problems that have been used as research hypotheses are as follows:

- H₁: Financial literacy influences financial performance.
- H₂: Financial literacy influences locus of control.
- H₃: Financial efficacy influences locus of control.
- H₄: Financial efficacy influences financial performance.
- H₅: Locus of control influences financial performance.
- H₆: Financial literacy influences financial performance through locus of control as an intervening variable.
- H₇: Financial efficacy influences financial performance through locus of control as an intervening variable.

2. RESEARCH METHOD

The quantitative method used in this research is very relevant in exploring causality and relationships between variables, especially in the context of studying financial literacy, financial efficacy, financial performance of MSMEs, and how the Locus of Control variable

plays an intervening role in this relationship. This research is very important because MSMEs play an important role in local economic growth and community welfare. By understanding how financial literacy, financial efficacy, and psychological factors such as Locus of Control influence the financial performance of MSMEs, it can help in formulating more effective policies and more appropriate support programs to improve the welfare and growth of MSMEs in Buleleng Regency.

The population of MSME in Buleleng District amounted to 35.890 business units. The amounts of samples can be determined by using the Slovin formula as follows:

$$n = \frac{N}{1 + N(e)^2}$$

$$= \frac{35,890}{1 + 35,890 (10\%)^2}$$

$$= 99.72 \text{ (rounded up to 100 samples)}$$

Structural Equation Modeling (SEM) with the Partial Least Squares (PLS) method is a useful tool for understanding the relationship between variables in a model. The first stage in PLS-SEM analysis is evaluating the measurement model, which consists of validity and reliability tests (Imam Ghazali, 2015). Formative indicators are tested with weight significance and multicollinearity.

Below is the framework of this research:

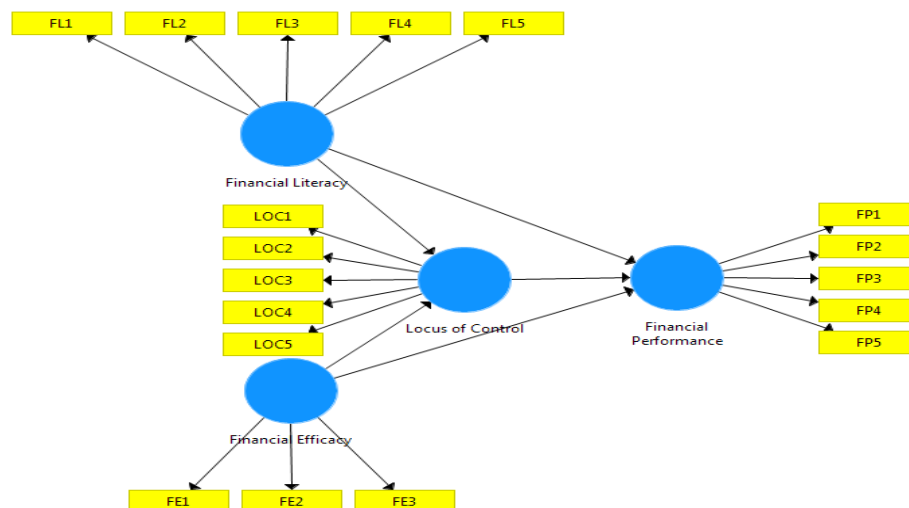


Figure 1 Research Framework

The following describes each indicator used in the research variables:

1. Financial Literacy

According to (Chen & Volpe, 2002) the following indicators of financial literacy:

- 1) General and financial knowledge
- 2) Financial Planning
- 3) Saving
- 4) Spending
- 5) Borrowing

2. Financial Efficacy

According to Rizkiawati and Haryono (2018), the following indicators of financial efficacy are:

- 1) Level
- 2) Generalization
- 3) Strength locus of control

3. Friedman and Schustack (2008), the following are indicators of Locus of Control:

- 1) The individual's belief that the events they experience are the result of their own behavior.
- 2) Have good control over their own behavior.
- 3) Tend to influence people others.
- 4) Confident that the efforts they make will be successful.
- 5) Actively seek information and knowledge related to the situation they are facing.

4. Financial Performance

The following are financial performance indicators used in this study:

- 1) Sales Turnover
- 2) Net Assets
- 3) Number of Workers
- 4) Credit
- 5) Net profit

3. RESULT AND DISCUSSION

There are two types of tests carried out by researchers, including conducting outer model and inner model tests. The outer model stage will show the results of factor loading, average variance extracted, discriminant validity and composite reliability. The following Figure 2 shows the results of the outer model test:

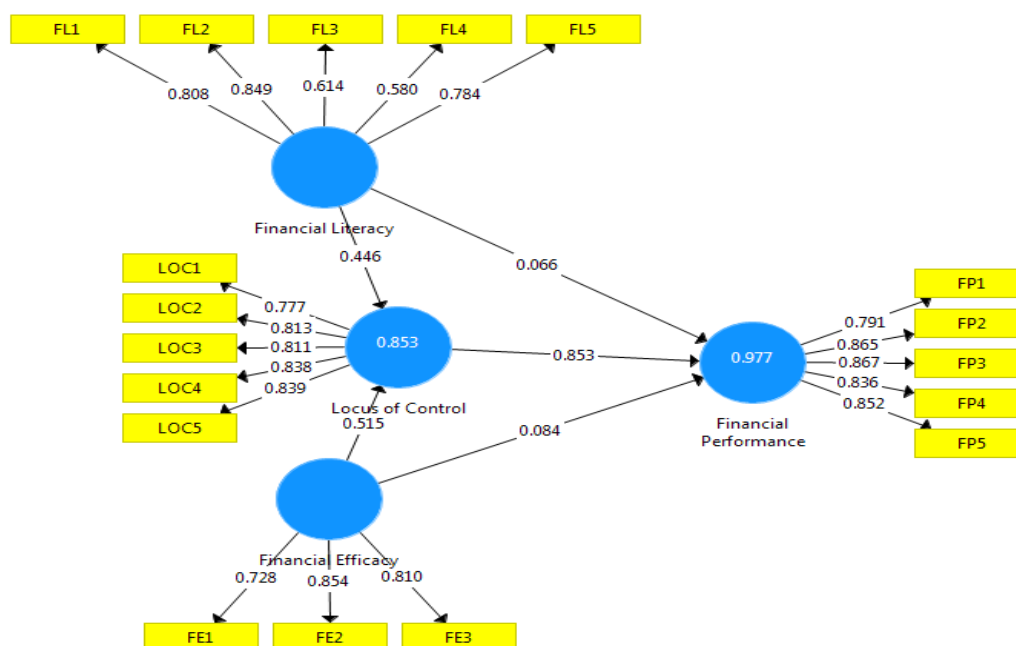


Figure 2 Outer Model Algorithm Results

The loading factors in Figure 2 were carried out to test the validity of the research indicators. The indicator can be declared valid if the loading factor value is > 0.6 . If there is an inappropriate loading factor value, then the indicator is removed from the research model (Husain, 2015).

Table 2. Cronbachs Alpha, rho_A, Composite Reliability, and Average Variance Extracted (AVE) Value

Construct	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Financial Efficacy	0.720	0.747	0.841	0.639
Financial Literacy	0.795	0.847	0.852	0.540
Financial Performance	0.898	0.899	0.925	0.710
Locus of Control	0.874	0.877	0.909	0.666

Source: SEM PLS Data Processing Results, 2023

In Table 2, it can be seen from the results of Cronbach's Alpha that there is no unidimensionality in the research model of the influence of financial literacy and financial efficacy on the financial performance of MSMEs which is mediated by locus of control, because the Cronbach's Alpha value reaches > 0.7 . AVE value > 0.5 (above 0.5). This shows that the construct is reliable or reliable. Discriminate validity is determined based on the results of the cross-loading values. These results are used to test the discriminant validity of the research indicator level.

Table 3. R-Square

	R Square	R Square Adjusted
Locus of Control	0.977	0.976
Financial Performance	0.853	0.850

Source: SEM Test Results, 2023

According to Chin (1998), the range of R-Square values is 0.67 % (strong), 0.33 % (medium) and 0.19% (weak), so that the R Square value of Locus of control is 97.7% and the Financial Performance of MSMEs is 85.3 % can be stated as strong. So, the relationship between latent constructs in this research can be stated to be strong.

Table 4. Path Coefficients

	Original Sample (O)	Sample Mean (M)	Standar Deviation (STDEV)	T-Statistics	P-Value
Financial Efficacy-> Financial Performance	0.084	0.082	0.041	2.046	0.041
Financial Efficacy-> Locus of Control	0.515	0.521	0.066	7.856	0.000
Financial Literacy-> Financial Performance	0.066	0.066	0.034	1.976	0.049
Financial Literacy-> Locus of Control	0.446	0.441	0.066	6.789	0.000
Locus of Control -> Financial Performance	0.853	0.855	0.057	14.915	0.000

Source: SEM Test Results, 2023

Table 5. Total Indirect Effects

	Original Sample (O)	Sample Mean (M)	Standar Deviation (STDEV)	T-Statistics	P-Value
Financial Efficacy -> Financial Performance	0.439	0.446	0.066	6.690	0.000
Financial Literacy -> Financial Performance	0.380	0.377	0.062	6.161	0.000

Source: Data Processed by SEM PLS, 2023

Table 4 Path Coefficients shows the results of hypothesis testing for each variable relationship. Based on these results, it can be seen that:

- 1) H1: Financial literacy has a positive and significant effect on financial performance. This can be seen from the positive value of the t-statistics (1.976) and the P-value of 0.049 (< 0.05)
- 2) H2: Financial literacy has a positive and significant effect on locus of control. It can be seen in the positive value of the t-statistics (6.789) and the P-value of 0.000 (< 0.05).
- 3) H3: Financial efficacy has a significant positive effect on locus of control. Available in Table 4 which shows the t-statistics value (7.856) and the P-value of 0.000 (< 0.05).
- 4) H4: Financial efficacy has a significant positive effect on financial performance. These results can be seen in Table 4, that the statistical t-value is positive (2.046) and the P-value is 0.041 (< 0.05).
- 5) H5: Locus of control has a positive and significant effect on financial performance. These results can be seen in the positive t-statistics value (14.915) and the P-value of 0.000 (< 0.05).
- 6) H6: Financial literacy has a positive and significant effect on financial performance through locus of control as an intervening variable. These results can be seen in Table 5

which shows the results of the total indirect effects test, showing a positive t-statistics value (6.161) and a P-value of 0.000 (< 0.05).

- 7) H7: Financial efficacy has a positive and significant effect on financial performance through locus of control as an intervening variable. Table 5 shows the results of the total indirect effects test that there is a positive t-statistics value (6.690) and a P-value of 0.000 (< 0.05).

Based on the results of the hypothesis testing that has been carried out, it can be stated that the better the understanding and quality of financial literacy possessed by MSME actors, the stronger their confidence in their ability to control the decisions and results they achieve. These results are similar to the results presented by (Rohmatin Khoirunnisa & Rochmawati, 2021) who also stated that adequate financial literacy has a very important role in forming an appropriate Locus of Control, especially in the context of financial management and good financial performance (Prastiawan, 2018). A similar opinion was emphasized by Kholilah & Iramani (2013), Financial literacy is an important foundation for good financial management, but to achieve strong self-control (Locus of Control) in managing finances, more than just financial knowledge is needed. Locus of Control as an Intervening Financial Literacy on MSME Financial Performance.

It is important to have strong financial knowledge, but also to develop a supportive mental attitude so that this knowledge can be optimized in achieving the expected financial performance. By considering the mediator role of locus of control, MSMEs can better manage and implement their financial knowledge. A similar opinion was also expressed by Wahida (2019), good financial literacy not only increases knowledge about finance, but also provides better control over personal or business finances. This can help individuals or MSME business actors to plan and manage their finances better, which in turn increases the chances of achieving the expected financial performance.

Apart from adequate financial literacy or knowledge, financial efficacy in this research is also proven to have a positive contribution or implication in supporting the financial performance of MSMEs in Buleleng Regency. The results of this research are in accordance with the opinion expressed by Afrianti & Biduri (2022), who stated that financial efficacy is a very important factor in influencing the financial performance of MSMEs. The understanding that can be concluded is that there are many internal factors within MSME actors that play a very important role in supporting financial performance.

4. CONCLUSIONS AND RECOMMENDATIONS

The research results have shown that financial literacy, financial efficacy on the financial performance of MSMEs in Buleleng through Locus of control as an intervening have a positive and significant effect. The locus of control variable can also be stated as an intervening variable for the financial literacy and financial efficacy variables. So, it can also be stated that it is very important for MSMEs in Buleleng Regency to have adequate knowledge and understanding regarding finance, self-confidence and confidence in making decisions related to finance, which of course is accompanied by self-control in order to improve the financial performance of MSMEs.

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